

## MEMO

To: Robert Sisson, City Manager

From: David Hodgkins, Assistant City Manager/Director of Finance

Date: June 6, 2011

Subject: Unspent Funds from 2005 Library Project Financing

The City financed the construction of the new library in 2005 (2005 Economic Development Authority "EDA" financing) under an agreement with Fairfax County. After long delays in resolving numerous outstanding issues with the general contractor, library construction and expenditures are now final, resulting in \$2.39 million of the original \$22.94 million project funds remaining unspent and available. The excess funds are the outcome of large contingencies budgeted for the design and construction of the project, much of which, as a result of stable market conditions, was not needed. The library contract does not specifically address the distribution/use of remaining funds between the City and the County. As the project is now finally complete, City and County staff met to discuss project closure and the options for and ownership of the remaining funds. Both City and County staff are in agreement that the unspent funds should be allotted to the City, and formal letters of acknowledgement will be exchanged in the near future.

Though the unspent funds are available for City use, the bond financing documents and federal tax laws also set restrictions on the use of the unspent bond funds. The points listed below give the parameters/options for the use of the unspent library funds:

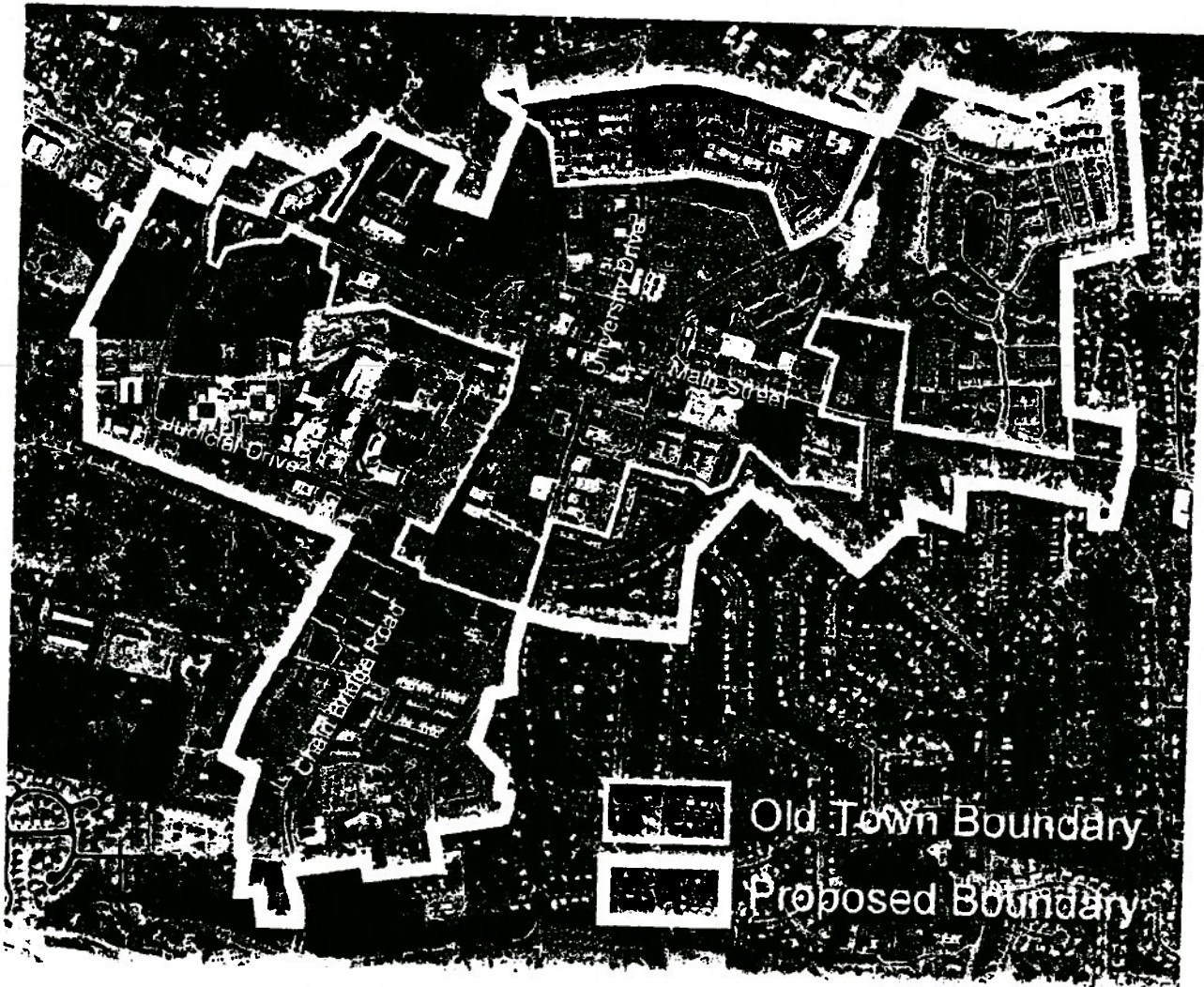
1. The unspent funds may be used for redevelopment projects in the downtown, one of the original purposes of the 2005 financing. The definition is broad allowing the City to pursue a wide variety of projects so long as they can fairly be described as "downtown redevelopment improvements" in the area considered the "downtown location". Such projects must be capital projects, and hence downtown maintenance projects do not qualify (i.e. downtown brick sidewalk repair). See attached map for areas that can reasonable be considered the downtown.
2. The purpose of the financing is exclusively for the design, construction and furnishing of the library, and redevelopment projects in the downtown. However, in addition to the more specific redevelopment project purpose already authorized, the City, with consent of the Trustee and the EDA, may amend the existing agreements to allow the unspent funds to be used for other capital projects outside the downtown area.
3. The unspent funds **cannot** be used to offset FY 2012 budget expenditures as the FY 2012 CIP projects do not fall within appropriate uses of the funds.
4. The County and the City have agreed that the library project is complete, and no additional funds from the financing (now or in the near future) are required for the library project.

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5. City staff **does not** recommend unspent monies be applied to pay future annual debt service payments on the 2005 bonds since staff is of the opinion that it may be challenging to demonstrate these funds qualify under federal tax regulations as "unexpected excess gross proceeds."
6. The unspent bond funds may be placed in escrow until the first date when the bonds can be optionally called (January 2015). There are some economic inefficiencies associated with this strategy since the City will likely experience negative arbitrage equivalent to several hundred thousand dollars in the investment earnings, given the current low reinvestment rates. Also, if the monies are set aside in escrow to call bonds in the future, the amortization schedule may be required to be adjusted downward (per the Library Agreement with the County), which could trigger or require the City to pay the County for library operational costs which otherwise would not have been due.
7. The federal tax laws contemplate that bond proceeds will be spent quickly, typically within three years of issuance. The longer the City holds unspent proceeds after that three year mark, the more likely the City may risk tax complications on the financing.

Map LU-2  
Old Town Fairfax



# Attachment I

## City of Fairfax, Virginia 2005 Economic Development Authority Lease Revenue Bonds Adjusted Library Debt Schedule for Fairfax County CSA 20-May-11

A					B		C		D			
Library Portion - Un-Adjusted <sup>(1)</sup>					Fairfax County Contribution <sup>(2)</sup>		Library Un-Adjusted Debt Service Over/(Under)		Library Debt Service - Adjusted <sup>(4)</sup>			
Fiscal Year	Principal	Interest	Estimated Debt Service Reserve Fund <sup>(3)</sup>	Net Debt Service	Growth Rate	4.351%	Fairfax County Contribution		Fiscal Year	Principal	Interest	Total
2006	0	439,000	10,091	428,909	458,551		(29,883)		2006	0	458,811	458,811
2007	0	440,474	10,342	430,816	852,150		83,982		2007	0	852,150	852,150
2008	154,507	440,474	3,704	1,098,276	881,322		210,954		2008	155,507	725,815	881,322
2009	155,507	441,309	0	1,097,316	908,145		189,171		2009	155,507	752,638	908,145
2010	445,785	437,144	0	1,382,929	821,844		561,085		2010	445,785	376,059	821,844
2011	458,744	423,770	13,837	1,396,351	775,400		593,277		2011	458,744	310,650	775,400
2012	474,295	406,435	13,837	1,394,567	809,141		560,751		2012	474,295	334,340	809,141
2013	487,254	391,020	13,837	1,392,111	844,350		525,086		2013	487,254	357,097	844,350
2014	505,396	378,134	13,837	1,397,367	881,092		488,652		2014	505,396	375,645	881,092
2015	520,947	360,495	13,837	1,395,279	919,432		448,173		2015	520,947	398,485	919,432
2016	539,089	342,262	13,837	1,394,188	959,440		408,674		2016	539,089	420,351	959,440
2017	567,599	315,908	13,837	1,397,344	1,001,190		367,880		2017	567,599	433,591	1,001,190
2018	596,108	290,929	13,837	1,398,874	1,044,756		324,443		2018	596,108	448,648	1,044,756
2019	624,634	268,364	13,837	1,396,835	1,090,218		278,463		2019	619,434	470,783	1,090,218
2020	642,760	238,396	13,837	1,394,993	1,137,658		229,571		2020	642,760	494,898	1,137,658
2021	660,478	212,996	13,837	1,397,311	1,187,162		180,274		2021	660,478	518,484	1,178,962
2022	677,771	189,102	13,837	1,396,710	1,238,821		128,875		2022	702,371	536,450	1,238,821
2023	694,636	164,043	13,837	1,398,516	1,292,738		76,134		2023	738,656	554,071	1,292,728
2024	711,071	140,110	13,837	1,394,918	1,348,980		19,234		2024	774,941	574,039	1,348,980
2025	727,188	116,503	13,837	1,397,528	1,407,680		(39,336)		2025	813,818	593,862	1,407,680
2026	742,991	93,770	13,837	1,397,598	1,468,934		(101,485)		2026	847,511	621,423	1,468,934
2027	758,481	71,401	13,837	1,399,719	1,532,854		(163,720)		2027	891,571	641,283	1,532,854
2028	773,651	49,822	13,837	1,397,310	1,599,555		(230,939)		2028	935,631	661,924	1,599,555
2029	788,501	29,041	13,837	1,397,379	1,669,159		(300,672)		2029	982,283	680,870	1,669,159
2030	803,127	8,920	13,837	1,399,884	1,741,791		(373,175)		2030	1,031,527	710,264	1,741,791
2031	817,540	0	13,837	1,399,377	1,817,584		(448,709)		2031	1,083,362	734,222	1,817,584
2032	831,789	0	13,837	1,399,626	1,896,075		(527,541)		2032	1,137,789	758,885	1,896,075
2033	845,809	0	13,837	1,399,646	1,979,207		(609,944)		2033	1,194,809	784,399	1,979,207
2034	859,419	0	13,837	1,399,256	2,065,331		(696,197)		2034	1,254,419	810,912	2,065,331
2035	872,622	0	13,837	1,399,459	2,155,202		(786,470)		2035 <sup>(5)</sup>	1,316,922	838,581	2,155,202
Total	20,542,413	18,984,201		37,786,652	37,786,652		(0)		Total	20,542,413	17,244,239	37,786,652

- (1) Library Portion shown is 51.84% of Series 2005 ED2A Bonds per City of Fairfax Staff.  
 (2) Fiscal years 2006 to 2010 are actual. Earnings thereafter are estimated at 1.0% annually.  
 (3) Fiscal years 2006 to 2010 are actual per City Staff. Fiscal year 2011 is budgeted.  
 (4) Interest adjusted up or down based upon Section C. Total debt service from applicable to the library paid over the life of the loan (Section A) is unchanged.  
 (5) 2035 debt service is anticipated to be paid from the portion of the Debt Service Reserve Fund allocated to the Library Project (51.84%). In this event the City will make 2035 contribution to Fairfax County.

Prepared by Davenport & Company LLC



Attachment II

A					B		C		D			
Library Portion - Un-Adjusted					Fairfax County Contribution <sup>(1)</sup>		Library Un-Adjusted Debt Service Over/(Under)		Library Debt Service - Adjusted <sup>(1)</sup>			
Fiscal Year	Principal	Interest	Estimated Debt Service Reserve Fund <sup>(2)</sup>	Net Debt Service	Growth Rate	3.40%	Fairfax County Contribution		Fiscal Year	Principal	Interest	Net Total
2006	0	490,303	31,722	458,581			0		2006	0	458,581	458,581
2007	0	1,056,941	38,595	1,018,346			166,196		2007	0	852,150	852,150
2008	173,656	1,056,941	38,595	1,192,002			310,881		2008	173,656	707,465	881,122
2009	173,656	1,051,731	38,595	1,186,793			275,715		2009	173,656	737,422	911,078
2010	497,815	1,046,522	38,595	1,505,741			563,688		2010	497,815	444,238	942,053
2011	512,286	1,031,587	38,595	1,505,278			942,053		2011	512,286	461,795	974,081
2012	529,652	1,015,578	38,595	1,506,635			1,007,198		2012	529,652	477,547	1,007,198
2013	544,123	998,365	38,595	1,503,893			1,041,441		2013	544,123	497,318	1,041,441
2014	564,383	980,681	38,595	1,506,469			1,076,848		2014	564,383	512,465	1,076,848
2015	581,749	960,927	38,595	1,504,081			1,113,459		2015	581,749	531,711	1,113,459
2016	602,009	940,566	38,595	1,503,980			1,151,315		2016	602,009	549,306	1,151,315
2017	633,846	910,466	38,595	1,505,716			1,190,458		2017	633,846	556,612	1,190,458
2018	665,683	878,773	38,595	1,505,861			1,230,931		2018	665,683	565,248	1,230,931
2019	691,731	852,146	38,595	1,505,282			1,272,780		2019	691,731	581,049	1,272,780
2020	717,779	824,477	38,595	1,503,661			1,316,053		2020	717,779	598,273	1,316,053
2021	746,722	795,766	38,595	1,503,893			1,360,796		2021	746,722	614,074	1,360,796
2022	784,348	758,430	38,595	1,504,182			1,407,061		2022	784,348	622,713	1,407,061
2023	824,868	719,212	38,595	1,505,485			1,454,898		2023	824,868	630,031	1,454,898
2024	865,387	677,969	38,595	1,504,761			1,504,362		2024	865,387	638,975	1,504,362
2025	908,801	634,699	38,595	1,504,906			1,555,508		2025	908,801	646,707	1,555,508
2026	946,427	596,075	38,595	1,503,907			1,608,392		2026	946,427	661,965	1,608,392
2027	995,630	548,754	38,595	1,505,788			1,663,075		2027	995,630	667,445	1,663,075
2028	1,044,832	498,973	38,595	1,505,210			1,719,616		2028	1,044,832	674,784	1,719,616
2029	1,096,929	446,731	38,595	1,505,065			1,778,080		2029	1,096,929	681,151	1,778,080
2030	1,151,920	391,884	38,595	1,505,210			1,838,532		2030	1,151,920	686,612	1,838,532
2031	1,209,806	334,288	38,595	1,505,499			1,901,039		2031	1,209,806	691,233	1,901,039
2032	1,270,585	273,798	38,595	1,505,788			1,965,671		2032	1,270,585	695,085	1,965,671
2033	1,334,259	210,269	38,595	1,505,933			2,032,500		2033	1,334,259	698,241	2,032,500
2034	1,400,828	143,556	38,595	1,505,788			2,101,601		2034	1,400,828	700,774	2,101,601
2035	1,470,290	73,515	1,543,805	0			2,173,052		2035 <sup>(4)</sup>	1,470,290	702,762	2,173,052
Total	22,940,000	21,199,923		41,483,733			(0)		Total	22,940,000	18,543,733	41,483,733

(1) Earnings estimated at 2.5% annually.

(2) Fiscal year 2005 value equal to debt service on bonds. Fiscal year 2006 value based on Fiscal Year 2005 estimate for total County Contribution as of September, 2005 of \$824,131.

(3) Interest adjusted up or down based upon Section C. Total debt service from applicable to the library paid over the life of the loan (Section A) is unchanged.

(4) 2035 debt service is anticipated to be paid from the Debt Service Reserve Fund. In this event the City will make 2035 contribution to Fairfax County.